

**THE ALEUTIANS EAST BOROUGH**

King Cove, Alaska

Management Discussion and Analysis,  
Basic Financial Statements, Supplemental  
Information, and Compliance Reports

June 30, 2013



# THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

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King Cove, Alaska

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**NEWHOUSE & VOGLER**  
*Certified Public Accountants*

237 E. Fireweed Lane, Suite 200  
Anchorage, Alaska 99503  
(907) 258-7555  
(907) 258-7582 Fax  
Independent Auditor's Report

Honorable Mayor and Borough Assembly  
The Aleutians East Borough  
King Cove, Alaska

Ladies and Gentlemen:

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Aleutians East Borough's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Aleutians East Borough's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and 19 through 21 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Aleutians East Borough's basic financial statements. The combining and individual non-major fund financial statements, and the Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, are presented for purposes of additional analysis and are not part of the basic financial statements. The accompanying schedule of State financial assistance is presented for purposes of additional analysis as required by *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

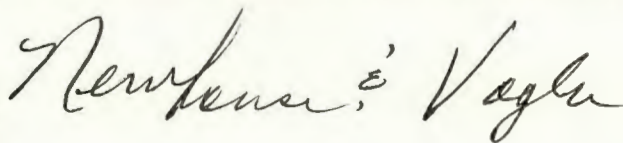


Honorable Mayor and Borough Assembly  
The Aleutians East Borough

**Other Reporting Required by Government Auditing Standard**

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2014 on our consideration of Aleutians East Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.<sup>9</sup> The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Aleutians East Borough's internal control over financial reporting and compliance.

Anchorage, Alaska  
January 31, 2014



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Management's Discussion and Analysis*

*Year Ended June 30, 2013*

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As the management of The Aleutians East Borough, we offer readers of The Aleutians East Borough's financial statements this narrative overview and analysis of the financial activities of The Aleutians East Borough for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information we have furnished in the Borough's financial statements which follow this narrative.

**FINANCIAL HIGHLIGHTS**

- Assets of The Aleutians East Borough exceeded liabilities at the close of the fiscal year by \$103,809,135 (net position).
- The Government's total net position increased by \$3,848,323, primarily due to government activity, capitalization of capital expenses in the government-wide financial statements and gain on investments.
- Governmental funds reported combined ending fund balances of \$55,113,864, an increase of \$3,042,484 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,886,836, or 100 percent of total general fund expenditures for the fiscal year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to The Aleutians East Borough's basic financial statements. The Borough's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Borough through use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of The Aleutians East Borough.



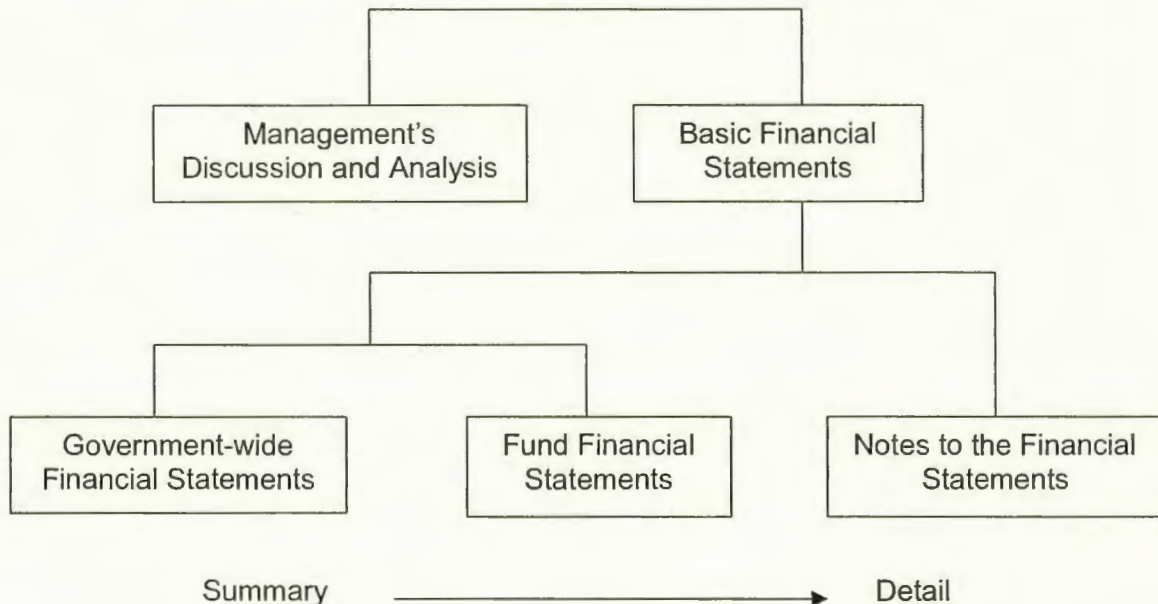
# THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## Management's Discussion and Analysis, continued

### OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Required Components of Annual Financial Report  
Figure 1



#### Basic Financial Statements

The first two statements (Exhibits A-1 and A-2) in the basic financial statements are government-wide financial statements. They provide both short- and long-term information about the Borough's financial status.

The next statements (Exhibits B-1 through B-5) are fund financial statements. These statements focus on activities of the individual parts of the Borough's government. These statements provide more detail than government-wide statements. There are two parts to fund financial statements: governmental funds statements and budgetary comparison statements.

The next section of the basic financial statements is notes. Notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Borough's individual funds. Budgetary information can also be found in this part of the statements.

#### Government-wide Financial Statements

Government-wide financial statements are designed to provide the reader with a broad overview of the Borough's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short- and long-term information about the Borough's financial status as a whole.

The two government-wide statements report the Borough's net position and how they have changed. Net position is the difference between the Borough's total assets and total liabilities. Measuring net position is one way to gauge the Borough's financial condition.

# THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## Management's Discussion and Analysis, continued

### OVERVIEW OF THE FINANCIAL STATEMENTS, continued

#### Government-wide Financial Statements, continued

Government-wide statements are divided into two categories: governmental activities and component units. Governmental activities include the Borough's basic services such as natural resource management, capital projects management, and general administration. State and federal grant funds finance most of these activities. The component unit includes the Aleutians East Borough School District. The District's activities include Instruction, Support Services, Student Transportation, and Food Services, among others. These activities are supported by local, State, and federal financial aid.

Government-wide financial statements are Exhibits A-1 and A-2 of this report.

#### Fund Financial Statements

Fund financial statements (see Figure 2) provide a more detailed look at the Borough's most significant activities. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. All funds of The Aleutians East Borough are included within one broad category: governmental funds.

The Aleutians East Borough's Net Position  
Figure 2

	2013	2012
Current and other assets	\$ 52,783,303	51,409,184
Capital assets	86,110,361	84,812,672
	<u>\$ 138,893,664</u>	<u>136,221,856</u>
Liabilities	<u>\$ 35,084,529</u>	<u>36,261,044</u>
Net position:		
Invested in capital assets, net of related debt	\$ 54,500,361	52,032,672
Reserved:		
Forward funding	9,121,404	9,613,654
Construction	6,768,879	8,945,380
Permanent fund	32,397,354	29,021,492
Unreserved:		
Designated for major maintenance	410,876	462,550
Undesignated	610,261	(114,936)
Total net position	<u>103,809,135</u>	<u>99,960,812</u>
	<u>\$ 138,893,664</u>	<u>136,221,856</u>



## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

### *Management's Discussion and Analysis, continued*

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#### **OVERVIEW OF THE FINANCIAL STATEMENTS, continued**

##### **Fund Financial Statements, continued**

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Borough's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Borough's programs. The relationship between government activities (reported in the statement of net position and statement of activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

The Aleutians East Borough adopts an annual budget for its general fund. The budget is a legally adopted document that incorporates input from the management of the Borough and decisions of the Assembly about which services to provide and how to pay for them. It also authorizes the Borough to obtain funds from identified sources to finance these current-period activities. The budgetary statement provided for the general fund demonstrates how well the Borough complied with the budget and whether or not the Borough succeeded in providing services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Assembly; 2) the final budget as amended by the Assembly; 3) actual resources, charges to appropriations, and ending balances in the general fund; and 4) the difference or variance between the final budget and actual resources and charges. To account for the difference between the budgetary basis of accounting and modified accrual basis, a reconciliation showing differences in reported activities is shown at the end of the budgetary statement.

##### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of data provided in the government-wide and fund financial statements. Notes to the financial statements are on pages 26 through 39 of this report.



## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

### *Management's Discussion and Analysis, continued*

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#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended June 30, 2013, are the beginning of a new era in financial reporting for The Aleutians East Borough and many other units of government across the United States. Prior to this year, The Aleutians East Borough maintained its governmental and proprietary fund groups as two separate and very distinct types of accounting without any type of consolidated statement that accurately reflected operations and net position of the government as a whole. There was a total column that appeared on the financial statements, but it was a memorandum total only. No attempt was made to adjust statements in such a way that the total column would represent the overall financial condition of The Aleutians East Borough. These statements were basically the equivalent of fund financial statements that appear in this report with fiduciary funds and two account groups, long-term debt, and general fixed assets added in.

Changes in the financial statement reporting model are mandated by GASB. GASB 34 dictated the changes you see in The Aleutians East Borough's financial reports as well as those of many other units of government. While The Aleutians East Borough was required to implement these changes for the fiscal year ended June 30, 2004, other units were required to implement Statement 34 in 2002.

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. Assets of The Aleutians East Borough exceeded liabilities by \$103,809,135 as of June 30, 2013. The Borough's net position increased by \$3,848,323 for the fiscal year ended June 30, 2013. However, the largest portion reflects the Borough's investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure) less any related debt still outstanding that was issued to acquire those items. The Aleutians East Borough uses these capital assets to provide services; consequently, these assets are not available for future spending. Although The Aleutians East Borough's investment in its capital assets is reported net of any outstanding related debt, resources needed to repay that debt must be provided by other sources, since capital assets cannot be used to liquidate these liabilities.

Several particular aspects of the Borough's financial operations positively influenced total unrestricted governmental net position:

- Increase in funding from the Borough raw fish tax.
- Increased miscellaneous revenues

#### **Governmental Activities**

Governmental activities increased the Borough's net position by \$5,478,662, thereby accounting for 100 percent of total increase in net position of The Aleutians East Borough (see Figure 3). Key elements of this increase are as follows:

- State raw fish taxes increased
- Investment revenues increased

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

### *Management's Discussion and Analysis, continued*

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#### GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

##### Governmental Activities, continued

##### The Aleutians East Borough Changes in Net Position Figure 3

###### Revenues:

###### Program:

Charges for services	\$ 4,121,050
Operating grants and contributions	4,816,221
Capital grants and contributions	251,643

###### General:

Unrestricted investment earnings	7,963
Restricted investment earnings	3,446,252
Miscellaneous	426,990

<i>Total revenues</i>	<u>13,070,119</u>
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###### Expenses:

General fund	5,556,761
Bond construction	447,807
Trust fund	36,238
Debt service	1,421,401
Maintenance reserve	93,011
Capital improvements	36,239
<i>Total expenses</i>	<u>7,591,457</u>

Increase in net position	5,478,662
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Net position, beginning of year	<u>89,046,671</u>
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<b>Net position, end of year</b>	<u><b>\$ 94,525,333</b></u>
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#### FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS

As noted earlier, The Aleutians East Borough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

##### Governmental Funds

The focus of The Aleutians East Borough's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing The Aleutians East Borough's financing requirements. Specifically, the unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds have total revenues of \$13,070,119 and expenditures of \$10,027,635. The net change in fund balances after transfers was an increase of \$3,042,484.



## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

### *Management's Discussion and Analysis, continued*

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#### **FINANCIAL ANALYSIS OF THE BOROUGH'S FUNDS, continued**

##### **Governmental Funds, continued**

At June 30, 2013, governmental funds of The Aleutians East Borough reported a combined fund balance of \$55,113,864, a 5 percent increase over last year.

##### **Budgetary Highlights**

General fund budgets are prepared according to Alaska law and are based on a modified accrual basis of accounting. The most significant budgeted fund is the general fund.

Actual revenues in the general fund were \$73,452 more than anticipated. This variance was related primarily to the State of Alaska and other revenue in the general fund.

Actual expenditures in the general fund were \$174,613 less than anticipated. This variance was related primarily to the contributions to the school district in the general fund.

Actual revenues in capital improvements were \$943,033 less than anticipated. This variance was related primarily to the decrease in federal and state revenue within this fund.

Actual expenditures in capital improvements were \$15,927 more than anticipated. This variance was due to the increase in activity within this fund.

Actual revenues in the trust fund were \$3,062,100 greater than anticipated. This variance was due to an increase in investment income.

Actual expenditures in the trust fund were \$1,238 more than anticipated. This variance was due to an increase in investment management fees within this fund.

Actual expenditures in the debt service fund were \$993,968 greater than anticipated. This variance was due to the increase in principle and interest expense within this fund.

Actual revenues in the bond construction fund were \$4,871,299 less than anticipated. This variance was due to a decrease in other revenue.

Actual expenditures in the trust fund were \$2,922,420 less than anticipated. This variance was due to less capital outlays than expected.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

##### **Capital Assets**

The Aleutians East Borough's investment in capital assets for its governmental activities as of June 30, 2013 totals \$86,110,361 (net of accumulated depreciation; see Figure 4). These assets include buildings, land, machinery and equipment, vehicles, and infrastructure.

Major capital asset transactions during the year include the following additions and retirements:

- Infrastructure additions totaled \$2,700,565.
- Buildings and improvements additions totaled \$177,422.
- Vehicles and equipment additions totaled \$678,813.



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Management's Discussion and Analysis, continued*

**CAPITAL ASSET AND DEBT ADMINISTRATION, continued**  
**Capital Assets, continued**

The Aleutians East Borough's Capital Assets  
Figure 4

	Capital Assets, Depreciated							
	Capital Assets, Not Depreciated -			Furniture and		Infrastructure	Access Road	
	Land	Buildings	Infra- structure	Equipment	Vehicles	Construction in Process	Construction in Process	Totals
Primary government -								
Governmental activities:								
Balance, June 30, 2012	\$ 5,323,074	45,048,417	20,622,483	606,743	169,651	11,664,975	32,677,917	116,113,260
Increases	-	112,999	-	110,677	-	2,700,565	-	2,924,241
Decreases	-	-	-	-	-	-	-	-
Balance, June 30, 2013	5,323,074	45,161,416	20,622,483	717,420	169,651	14,365,540	32,677,917	119,037,501
Accumulated depreciation -								
Balance, June 30, 2013	-	(35,563,653)	(11,603,949)	(614,079)	(161,689)	-	-	(47,943,370)
Capital assets, net	5,323,074	9,597,763	9,018,534	103,341	7,962	14,365,540	32,677,917	71,094,131
Business-type activities:								
Balance, June 30, 2012	-	7,339,148	-	10,342,359	-	-	-	17,681,507
Increases	-	64,423	-	568,136	-	-	-	632,559
Balance, June 30, 2013	-	7,403,571	-	10,910,495	-	-	-	18,314,066
Accumulated depreciation -								
Balance, June 30, 2013	-	(1,130,402)	-	(2,167,434)	-	-	-	(3,297,836)
Capital assets, net	-	6,273,169	-	8,743,061	-	-	-	15,016,230
Total Governmental activities:	5,323,074	15,870,932	9,018,534	8,846,402	7,962	14,365,540	32,677,917	86,110,361
Component units:								
Balance, June 30, 2012	-	-	-	823,861	-	-	-	823,861
Increases	-	-	-	15,482	-	-	-	15,482
Decreases	-	-	-	(36,447)	-	-	-	(36,447)
Balance, June 30, 2013	-	-	-	802,896	-	-	-	802,896
Accumulated depreciation -								
Balance, June 30, 2013	-	-	-	(504,756)	-	-	-	(504,756)
Capital assets, net	\$ -	-	-	298,140	-	-	-	298,140

Additional information on the Borough's capital assets can be found in the notes to the basic financial statements.

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

### *Management's Discussion and Analysis, continued*

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#### **CAPITAL ASSET AND DEBT ADMINISTRATION, continued**

##### **Long-term Debt**

As of June 30, 2013, The Aleutians East Borough had the following outstanding debt:

Bonds payable at July 1, 2012	\$ 32,780,000
Principal payments	<u>(1,170,000)</u>

<b>Bonds payable at June 30, 2013</b>	<b><u>\$ 31,610,000</u></b>
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Additional information on the Borough's outstanding debt can be found in the notes to the basic financial statements.

#### **REQUESTS FOR INFORMATION**

This report is designed to provide an overview of the Borough's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Director of Finance, The Aleutians East Borough, PO Box 49, King Cove, AK 99612.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit A-1

Government-wide Statement Net Position

June 30, 2013

	Primary Governmental Activities	Business-type Activities	Total	Component Unit
<b>Assets</b>				
Cash and cash equivalents	\$ 300	-	300	-
Equity in central treasury	50,465,605	-	50,465,605	1,858,677
Investment in Southwest Governments, LLC	419,859	-	419,859	-
Deposits	-	417,637	417,637	-
Prepays	-	-	-	372,100
Due from primary government	-	-	-	17,486
Inventory	-	-	-	43,475
Receivables, net:				
State of Alaska	688,805	-	688,805	-
Federal	27,136	-	27,136	-
School	34,846	-	34,846	-
Accrued interest	106,157	-	106,157	-
Other	620,372	2,586	622,958	98,008
<i>Total receivables</i>	<u>1,477,316</u>	<u>2,586</u>	<u>1,479,902</u>	<u>98,008</u>
Internal balances	<u>5,830,225</u>	<u>(5,830,225)</u>	<u>-</u>	<u>-</u>
Capital assets:				
Land and construction in progress	52,366,531	-	52,366,531	-
Other capital assets, net of depreciation	18,727,600	15,016,230	33,743,830	298,140
<i>Total capital assets</i>	<u>71,094,131</u>	<u>15,016,230</u>	<u>86,110,361</u>	<u>298,140</u>
	<u>\$ 129,287,436</u>	<u>9,606,228</u>	<u>138,893,664</u>	<u>2,687,886</u>
<b>Liabilities</b>				
Accounts payable	\$ 638,508	322,426	960,934	143,347
Accrued payroll and taxes	-	-	-	528,848
Accrued vacation	72,662	-	72,662	32,502
Unearned revenue	512,818	-	512,818	9,885
Due to component unit	1,928,115	-	1,928,115	-
Debt payable	31,610,000	-	31,610,000	-
<i>Total liabilities</i>	<u>34,762,103</u>	<u>322,426</u>	<u>35,084,529</u>	<u>714,582</u>
<b>Net Position</b>				
Invested in capital assets, net of related debt	39,484,131	15,016,230	54,500,361	298,140
Reserved:				
Forward funding	9,121,404	-	9,121,404	-
Construction	6,768,879	-	6,768,879	-
Permanent fund	32,397,354	-	32,397,354	-
Other	-	-	-	1,675,164
Unreserved:				
Designated for major maintenance	410,876	-	410,876	-
Undesignated	6,342,689	(5,732,428)	610,261	-
<i>Total net position</i>	<u>94,525,333</u>	<u>9,283,802</u>	<u>103,809,135</u>	<u>1,973,304</u>
	<u>\$ 129,287,436</u>	<u>9,606,228</u>	<u>138,893,664</u>	<u>2,687,886</u>

See accompanying notes to financial statements.



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Government-wide Statement of Activities*

Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	Component Unit
Primary governmental activities:							
General Fund	\$ 5,556,761	4,121,050	4,816,221	-	3,380,510	-	-
Bond construction	447,807	-	-	251,643	(196,164)	-	-
Trust fund	36,238	-	-	-	(36,238)	-	-
Debt service	1,421,401	-	-	-	(1,421,401)	-	-
Maintenance reserve	93,011	-	-	-	(93,011)	-	-
Capital improvements	36,239	-	-	-	(36,239)	-	-
Total primary governmental activities	<u>7,591,457</u>	<u>4,121,050</u>	<u>4,816,221</u>	<u>251,643</u>	<u>1,597,457</u>	<u>-</u>	<u>-</u>
Business-type activity - Hovercraft & Terminal	<u>3,677,945</u>	<u>2,047,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,630,339)</u>	<u>-</u>
Total primary government	<u>11,269,402</u>	<u>6,168,656</u>	<u>4,816,221</u>	<u>251,643</u>	<u>1,597,457</u>	<u>(1,630,339)</u>	<u>-</u>
Component unit - Aleutians East Borough School District	<u>\$ 9,563,790</u>	<u>62,181</u>	<u>599,235</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,902,374)</u>
				Primary Governmental Activities	Business-type Activities	Total	Component Unit
General revenues:							
Unrestricted investment earnings				\$ 7,963	-	7,963	-
Restricted investment earnings				3,446,252	-	3,446,252	-
Local contributions				-	-	-	1,749,029
State grants and entitlements				-	-	-	5,942,130
Federal sources				-	-	-	944,627
Miscellaneous				426,990	-	426,990	3,125
Total general revenues				<u>3,881,205</u>	<u>-</u>	<u>3,881,205</u>	<u>8,638,911</u>
Change in net position				5,478,662	(1,630,339)	3,848,323	(263,463)
Net position, beginning of year				<u>89,046,671</u>	<u>10,914,141</u>	<u>99,960,812</u>	<u>2,236,767</u>
Net position, end of year				<u>\$ 94,525,333</u>	<u>9,283,802</u>	<u>103,809,135</u>	<u>1,973,304</u>

See accompanying notes to financial statements.



THE ALEUTIANS EAST BOROUGH  
King Cove, Alaska

Exhibit B-1

*Governmental Funds*

*Combining Balance Sheet*

June 30, 2013

	Major Funds					Nonmajor Funds	Total Governmental Funds
	General	Capital Improvements	Trust Fund	Debt Service	Bond Construction		
<b>Assets</b>							
Cash and cash equivalents	\$ 300	-	-	-	-	-	300
Equity in central treasury	8,921,551	1,297,174	32,142,732	-	8,104,148	-	50,465,605
Investment in Southwest Governments, LLC	-	-	419,859	-	-	-	419,859
Receivables, net:							
State of Alaska	481,242	207,563	-	-	-	-	688,805
Federal	-	27,136	-	-	-	-	27,136
School	-	-	-	-	-	34,846	34,846
Accrued interest	5,281	-	88,136	-	12,740	-	106,157
Other	617,377	2,995	-	-	-	-	620,372
<i>Total receivables</i>	<i>1,103,900</i>	<i>237,694</i>	<i>88,136</i>	<i>-</i>	<i>12,740</i>	<i>34,846</i>	<i>1,477,316</i>
Due from other funds	8,496,787	-	-	75,123	-	660,294	9,232,204
	<u>\$ 18,522,538</u>	<u>1,534,868</u>	<u>32,650,727</u>	<u>75,123</u>	<u>8,116,888</u>	<u>695,140</u>	<u>61,595,284</u>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Accounts payable	\$ 73,365	-	2,942	-	558,707	3,494	638,508
Unearned revenue	512,818	-	-	-	-	-	512,818
Due to component unit	1,928,115	-	-	-	-	-	1,928,115
Due to other funds	-	2,081,476	250,431	-	1,070,072	-	3,401,979
<i>Total liabilities</i>	<i>2,514,298</i>	<i>2,081,476</i>	<i>253,373</i>	<i>-</i>	<i>1,628,779</i>	<i>3,494</i>	<i>6,481,420</i>
Fund balances:							
Committed:							
Forward funding	9,121,404	-	-	-	-	-	9,121,404
Construction	-	-	-	-	6,488,109	280,770	6,768,879
Permanent fund	-	-	32,397,354	-	-	-	32,397,354
Assigned:							
Designated for major maintenance	-	-	-	-	-	410,876	410,876
Unassigned	6,886,836	(546,608)	-	75,123	-	-	6,415,351
<i>Total fund balances (deficits)</i>	<i>16,008,240</i>	<i>(546,608)</i>	<i>32,397,354</i>	<i>75,123</i>	<i>6,488,109</i>	<i>691,646</i>	<i>55,113,864</i>
	<u>\$ 18,522,538</u>	<u>1,534,868</u>	<u>32,650,727</u>	<u>75,123</u>	<u>8,116,888</u>	<u>695,140</u>	<u>61,595,284</u>

See accompanying notes to financial statements.

**THE ALEUTIANS EAST BOROUGH**

King Cove, Alaska

*Governmental Funds**Reconciliation of Fund Balance to Net Position**Year Ended June 30, 2013*

---

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances - Total governmental funds	\$ 55,113,864
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	71,094,131
General long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	(31,610,000)
Compensated absences	<u>(72,662)</u>
<b>Net position of governmental activities</b>	<b><u>\$ 94,525,333</u></b>

See accompanying notes to financial statements.

THE ALEUTIANS EAST BOROUGH  
King Cove, Alaska

Exhibit B-3

Governmental Funds

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balance

Year Ended June 30, 2013

	Major Funds					Nonmajor Funds	Total Governmental Funds
	General Fund	Capital Improvements	Trust Fund	Debt Service	Bond Construction		
Revenues:							
Federal government	\$ 541,817	249,255	-	-	-	-	791,072
State of Alaska	4,274,404	2,388	-	-	-	-	4,276,792
Borough raw fish tax	4,121,050	-	-	-	-	-	4,121,050
Investment income	7,963	1,935	3,412,100	-	32,217	-	3,454,215
Other	176,170	-	-	-	96,484	154,336	426,990
<i>Total revenues</i>	<u>9,121,404</u>	<u>253,578</u>	<u>3,412,100</u>	<u>-</u>	<u>128,701</u>	<u>154,336</u>	<u>13,070,119</u>
Expenditures:							
Current:							
Mayor's office	263,591	-	-	-	-	-	263,591
Assembly	118,301	-	-	-	-	-	118,301
Clerk and planning management	177,502	-	-	-	-	-	177,502
Administration	399,439	-	-	-	-	-	399,439
Finance	254,861	-	-	-	-	-	254,861
Resource department	543,841	-	-	-	-	-	543,841
Public works	151,356	-	-	-	-	-	151,356
Special assistant	124,128	-	-	-	-	-	124,128
Other	1,870,849	-	-	-	-	-	1,870,849
Capital outlays	-	1,212,538	-	-	2,077,580	206,010	3,496,128
Principle	-	-	-	1,170,000	-	-	1,170,000
Interest	-	-	-	1,421,401	-	-	1,421,401
Trust fund	-	-	36,238	-	-	-	36,238
<i>Total expenditures</i>	<u>3,903,868</u>	<u>1,212,538</u>	<u>36,238</u>	<u>2,591,401</u>	<u>2,077,580</u>	<u>206,010</u>	<u>10,027,635</u>
Excess of revenues over (under) expenditures	<u>5,217,536</u>	<u>(958,960)</u>	<u>3,375,862</u>	<u>(2,591,401)</u>	<u>(1,948,879)</u>	<u>(51,674)</u>	<u>3,042,484</u>
Other financing sources (uses):							
Transfers from other funds	-	184,730	-	2,591,401	-	-	2,776,131
Transfers to other funds	(2,776,131)	-	-	-	-	-	(2,776,131)
<i>Total other financing sources (uses)</i>	<u>(2,776,131)</u>	<u>184,730</u>	<u>-</u>	<u>2,591,401</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	2,441,405	(774,230)	3,375,862	-	(1,948,879)	(51,674)	3,042,484
Fund balances, beginning of year	13,527,556	227,622	29,021,492	75,123	8,436,988	743,320	52,032,101
Prior period adjustment	39,279	-	-	-	-	-	39,279
<i>Fund balances (deficit), end of year</i>	<u>\$ 16,008,240</u>	<u>(546,608)</u>	<u>32,397,354</u>	<u>75,123</u>	<u>6,488,109</u>	<u>691,646</u>	<u>55,113,864</u>

See accompanying notes to financial statements.



**THE ALEUTIANS EAST BOROUGH**

King Cove, Alaska

*Governmental Funds**Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balance to the Statement of Activities**Year Ended June 30, 2013*

---

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - Total governmental funds \$ 3,042,484

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capitalized outlays of \$2,924,241 exceeded depreciation of \$1,624,680 in the current period 1,299,561

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This amount represent principal payments on long-term liabilities. 1,170,000

Governmental funds report compensated absences when taken; however, in the statement of activities, the cost of absences are expensed when earned. The amount of compensated absences earned and outstanding at the end of the year increased by this amount. (33,383)

**Total changes in net position of governmental activities \$ 5,478,662**

See accompanying notes to financial statements.



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

Exhibit B-5

*General Fund and Annually Budgeted Special Revenue Funds*

*Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual*

*Year Ended June 30, 2013*

	General Fund				Capital Improvements		
	Original	Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
<b>Revenues:</b>							
Federal government	\$ 595,256	527,941	541,817	13,876	1,196,611	249,255	(947,356)
State of Alaska	3,549,750	4,165,059	4,274,404	109,345	-	2,388	2,388
Borough raw fish tax	3,200,779	4,121,050	4,121,050	-	-	-	-
Investment income	35,000	7,963	7,963	-	-	1,935	1,935
Southwest Governments, LLC	-	60,000	-	(60,000)	-	-	-
Other	7,000	165,939	176,170	10,231	-	-	-
<i>Total revenues</i>	<u>7,387,785</u>	<u>9,047,952</u>	<u>9,121,404</u>	<u>73,452</u>	<u>1,196,611</u>	<u>253,578</u>	<u>(943,033)</u>
<b>Expenditures:</b>							
Current:							
Mayor's office	247,795	258,342	263,591	(5,249)	-	-	-
Assembly	126,000	104,815	118,301	(13,486)	-	-	-
Clerk and planning management	194,484	167,213	177,502	(10,289)	-	-	-
Administration	339,950	399,472	399,439	33	-	-	-
Finance	238,963	241,286	254,861	(13,575)	-	-	-
Resource department	495,685	526,614	543,841	(17,227)	-	-	-
Public works	126,099	143,151	151,356	(8,205)	-	-	-
Special assistant	123,006	116,165	124,128	(7,963)	-	-	-
Other	2,198,022	2,121,423	1,870,849	250,574	-	-	-
Capital outlay	-	-	-	-	1,196,611	1,212,538	(15,927)
Principle	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Trust fund	-	-	-	-	-	-	-
<i>Total expenditures</i>	<u>4,090,004</u>	<u>4,078,481</u>	<u>3,903,868</u>	<u>174,613</u>	<u>1,196,611</u>	<u>1,212,538</u>	<u>(15,927)</u>
Excess of revenues over (under) expenditures	3,297,781	4,969,471	5,217,536	248,065	-	(958,960)	(958,960)
Other financing uses -							
Transfers (to) from other funds	(1,597,433)	(1,597,433)	(2,776,131)	1,178,698	-	184,730	184,730
<i>Total other financing uses</i>	<u>(1,597,433)</u>	<u>(1,597,433)</u>	<u>(2,776,131)</u>	<u>1,178,698</u>	<u>-</u>	<u>184,730</u>	<u>184,730</u>
Excess of revenues and other financing sources (under) over expenditures and other uses	\$ <u>1,700,348</u>	<u>3,372,038</u>	<u>2,441,405</u>	<u>1,426,763</u>	<u>-</u>	<u>(774,230)</u>	<u>(774,230)</u>
Fund balances, beginning of year			13,527,556			227,622	
Prior period adjustment			39,279			-	
<b>Fund balances (deficit), end of year</b>			<u>\$ 16,008,240</u>			<u>(546,608)</u>	

See accompanying notes to financial statements.

**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*General Fund and Annually Budgeted Special Revenue Funds*

*Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual, continued*

	Trust fund			Debt Service Fund		
	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:						
Federal government	\$ -	-	-	-	-	-
State of Alaska	-	-	-	-	-	-
Borough raw fish tax	-	-	-	-	-	-
Investment income	350,000	3,412,100	3,062,100	-	-	-
Other	-	-	-	-	-	-
<i>Total revenues</i>	<u>350,000</u>	<u>3,412,100</u>	<u>3,062,100</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:						
Current:	-	-	-	-	-	-
Mayor's office	-	-	-	-	-	-
Assembly	-	-	-	-	-	-
Clerk and planning management	-	-	-	-	-	-
Administration	-	-	-	-	-	-
Finance	-	-	-	-	-	-
Resource department	-	-	-	-	-	-
Public works	-	-	-	-	-	-
Special assistant	-	-	-	-	-	-
Other	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Principle	-	-	-	875,000	1,170,000	(295,000)
Interest	-	-	-	722,433	1,421,401	(698,968)
Trust fund	35,000	36,238	(1,238)	-	-	-
<i>Total expenditures</i>	<u>35,000</u>	<u>36,238</u>	<u>(1,238)</u>	<u>1,597,433</u>	<u>2,591,401</u>	<u>(993,968)</u>
Excess of revenues over (under) expenditures	315,000	3,375,862	3,060,862	(1,597,433)	(2,591,401)	(993,968)
Other financing sources -						
Transfers from other funds	-	-	-	1,597,433	2,591,401	993,968
<i>Total other financing sources</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,597,433</u>	<u>2,591,401</u>	<u>993,968</u>
Excess of revenues and other financing sources over (under) expenditures and other uses	<u>\$ 315,000</u>	<u>3,375,862</u>	<u>3,060,862</u>	<u>(2,591,401)</u>	<u>-</u>	<u>-</u>
Fund balances, beginning of year		<u>29,021,492</u>			<u>75,123</u>	
<b>Fund balances, end of year</b>		<u><b>\$ 32,397,354</b></u>			<u><b>75,123</b></u>	

See accompanying notes to financial statements.

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## General Fund and Annually Budgeted Special Revenue Funds

Statement of Revenues, Expenditures, and Changes in  
Fund Balances - Budget and Actual, continued

	Bond Construction		
	Original/Final	Actual Amounts	Variance with Final Budget - Favorable (Unfavorable)
Revenues:			
Federal government	\$ -	-	-
State of Alaska	-	-	-
Borough raw fish tax	-	-	-
Investment income	-	32,217	32,217
Other	5,000,000	96,484	(4,903,516)
<i>Total revenues</i>	<u>5,000,000</u>	<u>128,701</u>	<u>(4,871,299)</u>
Expenditures:			
Current:	-	-	-
Mayor's office	-	-	-
Assembly	-	-	-
Clerk and planning management	-	-	-
Administration	-	-	-
Finance	-	-	-
Resource department	-	-	-
Public works	-	-	-
Special assistant	-	-	-
Other	-	-	-
Capital outlay	5,000,000	2,077,580	2,922,420
Principle	-	-	-
Interest	-	-	-
Trust fund	-	-	-
<i>Total expenditures</i>	<u>5,000,000</u>	<u>2,077,580</u>	<u>2,922,420</u>
Excess of revenues under expenditures	-	(1,948,879)	(1,948,879)
Other financing sources -			
Transfers from other funds	-	-	-
<i>Total other financing sources</i>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources under expenditures and other uses	<u>\$ -</u>	<u>(1,948,879)</u>	<u>(1,948,879)</u>
Fund balance, beginning of year		<u>8,436,988</u>	
<i>Fund balance, end of year</i>		<u>\$ 6,488,109</u>	



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

Exhibit C-1

*Business-type Activities - Hovercraft and Terminal*

*Balance Sheet*

*June 30, 2013*

	Hovercraft	Terminal	Total Business - Type Activities
<b>Assets</b>			
Deposits	\$ 417,637	-	417,637
Receivables, net	2,586	-	2,586
Equipment, net of accumulated depreciation	8,743,062	6,273,168	15,016,230
<i>Total assets</i>	<u>\$ 9,163,285</u>	<u>6,273,168</u>	<u>15,436,453</u>
 <b>Liabilities</b>			
Accounts payable	\$ 322,426	-	322,426
Due to other funds	4,531,265	1,298,960	5,830,225
<i>Total liabilities</i>	<u>4,853,691</u>	<u>1,298,960</u>	<u>6,152,651</u>
 <b>Retained earnings</b>			
Fund equity:			
Contributions in aid, net	8,743,062	6,273,168	15,016,230
Retained deficit	(4,433,468)	(1,298,960)	(5,732,428)
<i>Total fund equity</i>	<u>4,309,594</u>	<u>4,974,208</u>	<u>9,283,802</u>
	<u>\$ 9,163,285</u>	<u>6,273,168</u>	<u>15,436,453</u>

The notes to the financial statements are an integral part of this statement.



## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Business-type Activities - Hovercraft and Terminal**Combined Statement of Revenues, Expenses  
and Changes in Retained Earnings**Year Ended June 30, 2013*

	Hovercraft	Terminal	Total Business - Type Activities
Revenues	\$ 1,909,620	137,986	2,047,606
Operating expenses:			
Salaries and benefits	-	27,614	27,614
Contract labor	2,027,044	-	2,027,044
Professional services	-	111,424	111,424
Travel and per diem	116,972	322	117,294
Telephone	2,040	4,284	6,324
Supplies	113,437	4,889	118,326
Equipment	1,387	-	1,387
Rent	-	15,683	15,683
Utilities	3,714	23,115	26,829
Insurance	132,843	-	132,843
Fuel	437,612	21,134	458,746
Depreciation	381,534	252,897	634,431
<i>Total operating expenses</i>	<u>3,216,583</u>	<u>461,362</u>	<u>3,677,945</u>
Excess of revenues under expenditures	(1,306,963)	(323,376)	(1,630,339)
Retained earnings, beginning of year	<u>5,616,557</u>	<u>5,297,584</u>	<u>10,914,141</u>
Retained earnings, end of year	<u>\$ 4,309,594</u>	<u>4,974,208</u>	<u>9,283,802</u>

The notes to the financial statements are an integral part of this statement.

**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

Exhibit C-3

*Business-type Activities - Hovercraft and Terminal*

*Statement of Cash Flows*

*Year Ended June 30, 2013*

	<u>Hovercraft</u>	<u>Terminal</u>	<u>Total Business - Type Activities</u>
Increase (decrease) in cash and cash equivalents -			
Cash flows from operating activities:			
Cash payments from customers	\$ 1,917,158	137,986	2,055,144
Cash payments from other sources	1,589,569	134,902	1,724,471
Cash payments for goods and services	(2,938,592)	(180,851)	(3,119,443)
Cash payments for salaries and benefits	-	(27,614)	(27,614)
<i>Net cash provided by operating activities</i>	<u>568,135</u>	<u>64,423</u>	<u>632,558</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(568,135)	(64,423)	(632,558)
<i>Total cash flows used by capital and       related financing activities</i>	<u>(568,135)</u>	<u>(64,423)</u>	<u>(632,558)</u>
Net increase in cash	-	-	-
Cash and cash equivalents, beginning of year	-	-	-
<b>Cash and cash equivalents, end of year</b>	<u>\$ -</u>	<u>-</u>	<u>-</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Change in retained earnings	\$ (1,306,963)	(323,376)	(1,630,339)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	381,534	252,897	634,431
Decrease (increase) in current assets:			
Receivables, net	7,538	-	7,538
Deposits	(417,637)	-	(417,637)
Increase in current liabilities:			
Accounts payable	314,094	-	314,094
Increase in due to other funds	<u>1,589,569</u>	<u>134,902</u>	<u>1,724,471</u>
<b>Net cash provided by operating activities</b>	<u>\$ 568,135</u>	<u>64,423</u>	<u>632,558</u>

The notes to the financial statements are an integral part of this statement.

**THE ALEUTIANS EAST BOROUGH**

King Cove, Alaska

*Deferred Compensation Agency Fund*

*Statement of Fiduciary Net Position*

*June 30, 2013*

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***Assets***

Property and rights held under deferred compensation plan	\$ <u>551,438</u>
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***Net Position***

Obligations to employees under deferred compensation plan	\$ <u>551,438</u>
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**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Notes to Financial Statements*

*June 30, 2013*

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Aleutians East Borough (Borough) was incorporated October 23, 1987, under the laws of the State of Alaska as a second-class borough. All significant activities with which the Borough exercises oversight responsibilities have been included in the Borough's general purpose financial statements.

The accompanying financial statements include all activities of The Aleutians East Borough and The Aleutians East Borough School District. The Borough Assembly, as the oversight authority, approves the total annual budget of the School District and also makes annual contributions to it. Based on financial interdependence, budget approval, responsibility for debt, and accountability and control of fiscal matters, The Aleutians East Borough School District is a component unit of The Aleutians East Borough. The Aleutians East Borough School District's audited financial statements may be obtained from The Aleutians East Borough School District.

No other entities exist over which the Borough has oversight responsibility.

**Component Unit**

The Aleutians East Borough School District is a component unit of The Aleutians East Borough. The School District was formed July 1, 1988, as a result of the formation of The Aleutians East Borough on the same date. The District was formed by incorporating King Cove City School District and Sand Point City School District. In addition, the following locations were added from Aleutian Region School District: Cold Bay, False Pass, Nelson Lagoon, and Akutan.

As the School District is organized as a government, its financial statements are prepared using accounting principles generally accepted in the United States of America as related to government organizations. As such, the financial statements are prepared using the current financial resources measurement focus and accrual method of accounting.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and statement of activities) report information in all nonfiduciary activities of the Borough. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental fund types. Major individual governmental funds are reported in separate columns in the fund financial statements.



## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

### *Notes to Financial Statements, continued*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

##### **Government-wide and Fund Financial Statements, continued**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Net position should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the Borough had no restricted net position.

##### **Measurement Focus, Basis of Accounting, and Basis of Presentation**

The financial statements of the Borough are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Borough's reporting entity applies all relevant GASB pronouncements and applicable Financial Accounting Standards Assembly (FASB) pronouncements and Accounting Principles Assembly (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Borough's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and accrual basis of accounting includes reclassification or elimination of internal activity (between or within funds). Financial statements of Borough component units also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements report used the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Borough considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

When both restricted and unrestricted resources are available for use, it is the Borough's policy to use restricted resources first, then unrestricted resources as needed.

##### **Fund Types and Major Funds,**

Aleutians East Borough reports the following major funds:

- General Fund - Reports as the primary fund of the Borough. This fund is used to account for all financial resources not reported in other funds.



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Notes to Financial Statements, continued*

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**  
**Fund Types and Major Funds, continued**

- Capital Projects - Accounts for all revenue received and expenditures made for the development and administration of capital projects.
- Trust Fund - Accounts for all revenue received and expenditures made for the development and administration of the trust fund.
- Debt Service – Accounts for all expenditures made for the retirement of and interest on debt.
- Bond Construction – Accounts for all expenditures made on projects funded by bond proceeds.
- Business-type activity – Hovercraft and Terminal – Accounts for all activity for the operations of the hovercraft.

**Assets, Liabilities, and Equity**

Deposits and Investments - The Borough's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of 3 months or less from the date of acquisition.

Receivables and Payables - All outstanding balances between funds are reported as "due to/from other funds." These balances represent the numerous transactions that occur during the course of operations between individual funds for goods provided or services rendered. The direct write-off method is used for estimated uncollectible accounts receivable.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets - The Borough's property, plant, equipment, and infrastructure with useful lives of more than 1 year are stated at historical cost and comprehensively reported in government-wide financial statements. The Borough maintains infrastructure asset records consistent with all other capital assets. Component unit capital assets are also reported in their respective fund and combining component unit financial statements. Donated assets are stated at fair value on the date donated. The Borough generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives in years for depreciable assets are as follows:

Buildings	25
Infrastructure	30
Furniture, Vehicles and equipment	3 to 7

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

### *Notes to Financial Statements, continued*

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

Compensated Absences - It is the Borough's policy to permit employees to accumulate earned but unused annual leave. Compensated absences are reported as accrued in government-wide and component unit financial statements. Governmental funds report only matured compensated absences payable to currently terminated employees and are included in wages and benefits payable.

Deferred Revenue - Amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met are recorded as deferred revenue.

Long-term Debt - In government-wide and component unit financial statements, outstanding debt is reported as liabilities. Governmental fund financial statements recognize proceeds of debt and premiums as other financing sources of the current period.

Fund Equity - Governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. There is no reserved fund balance reported in the current year.

#### **Use of Estimates**

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

##### **Budgetary Information**

The Borough Assembly is required to approve an annual budget before the start of the new fiscal year. Public hearings are conducted to obtain taxpayer comments. The budget is legally enacted through passage of an ordinance. Budgets are prepared and presented on the modified accrual basis of accounting. Any revisions to the budget must be approved by passage of an ordinance by the Assembly. The Borough Assembly authorizes formal budget revisions several times each year to adjust revenues and expenditures to available resources and program needs. The final revised and approved budget is presented in these financial statements.

Beginning in fiscal year 2003, the Borough is forward funding its general fund expenditures and reserving general fund balance to the extent of current-year general fund revenue except coastal management and LEPC grants.



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Notes to Financial Statements, continued*

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**NOTE 3 - CASH AND INVESTMENTS**

The Borough's investment policy authorizes the Borough to invest in U.S. Treasury securities; obligations guaranteed by the U.S. government or its agencies or instrumentalities; repurchase agreements; certificates of deposit; bonds and notes which are issued by any state or political subdivision thereof which are graded "A" or higher by Moody's Investor's Service, Inc.; prime commercial paper graded "A1" or higher by Moody's Investor's Service, Inc.; banks and savings and loan associations to the extent that deposits are insured by Federal Depository Insurance Corporation or Federal Savings and Loan Insurance Corporation; obligations of corporations, provided the obligations are graded "Baa" or higher by Moody's Investor's Service Inc., or Standard and Poor's Corporation and issued in the United States and denominated in US dollars, not more than 15% of the fixed income portfolio may be held in Baa rated securities; The Alaska Municipal League Investment Pool, Inc.; and Income producing real estate investments. Additionally, the policy authorizes the Borough invest permanent fund assets to maintain safety of principle while maximizing the total return. Investments shall be diversified to minimize the risk of loss resulting from a concentration of investments in a specific maturity, issuer, class of security, financial institution, or with respect to equity investments, in a specific company, industry or investment sector. Fund assets may be invested in the instruments and securities set out in the following securities: Domestic Equities, which taken as a whole, attempt to replicate the Standard and Poor's 500 Index, including both mutual funds and exchange traded funds (ETF's); International Equities, which taken as a whole, attempt to replicate the Morgan Stanley Europe, Australiasia, Far East (EAFE) Index, including both mutual funds and exchange traded funds (ETF's); Equities, which take as a whole, attempt to replicate the universe of domestic real estate investment trusts as represented by the S&P REIT index or the Cohen and Steers Realty Majors Portfolio Index, including both mutual funds and exchange traded funds (ETF's); and Domestic Equities, which taken as a whole, attempt to replicate the Standard and Poor's 400 Midcap Index, including both moth mutual funds and exchange traded funds (ETF's). The permanent fund may invest up to 35 percent of total invested permanent funds in common and preferred stock listed on a recognized exchange and a mutual fund designed to replicate the Standard and Poor's 500 Index. The permanent fund may also invest in international equities up to a maximum of 5 percent of the total permanent fund. Performance measurement for the Fixed Income Allocation will be measured against the Target weighting using the Lehman Intermediate Gov/Credit Index for the Benchmark. The duration of the Fixed Income Allocation should be maintained between 80% and 120% of the duration of the Benchmark.

Statutes require that the Borough's deposits in excess of FDIC or FSLIC limits be collateralized by government securities. Cash resources for some of the various funds are maintained in a central treasury represented by a sweep checking account and certificate of deposit. Cash is swept and commingled with the School District's moneys within Borough accounts on a daily basis.

The Borough participates in the Alaska Municipal League Investment Pool (AMLIP). This investment pool consists of governmental investors within the State of Alaska. AMLIP does not carry its own institutional insurance or collateralization for funds it invests. The organizing document does state that certificates of deposit must be collateralized or covered by federal insurance by the issuing entity. The carrying amount and market value at June 30, 2013, was \$50,789.

THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Notes to Financial Statements, continued

**NOTE 3 - CASH AND INVESTMENTS, continued**

Cash and investment balances are as follows:

	Bank Balance	Book Balance
Cash and cash equivalents	\$ 8,223,742	7,664,450
Investments, at fair market value	<u>42,801,455</u>	<u>42,801,455</u>
	<u>\$ 51,025,197</u>	<u>50,465,905</u>

Components of investment activity at June 30, 2013 was as follows:

Interest	\$ 431,466
Dividends	628,700
Fees	(15,743)
Realized gains	391,554
Unrealized gains	<u>2,018,238</u>
	<u>\$ 3,454,215</u>

Investment income affected the following funds at June 30, 2013:

General Fund - unreserved	\$ 7,963
Capital Improvements - reserved	1,935
Trust Fund - reserved	3,412,100
Bond Construction - unreserved	<u>32,217</u>
	<u>\$ 3,454,215</u>



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Notes to Financial Statements, continued*

**NOTE 4 – CAPITAL ASSETS**

A summary of changes in fixed assets for the year ended June 30, 2013, follows:

	June 30, 2012	Additions	Retirements	June 30, 2013
Governmental funds:				
Capital assets not being depreciated:				
Land	\$ 5,323,074	-	-	5,323,074
Construction in process	44,342,892	2,700,565	-	47,043,457
<i>Total capital assets not being depreciated</i>	<u>49,665,966</u>	<u>2,700,565</u>	<u>-</u>	<u>52,366,531</u>
Other Capital assets:				
Buildings and improvements	45,048,417	112,999	-	45,161,416
Infrastructure	20,622,483	-	-	20,622,483
Furniture and equipment	606,743	110,677	-	717,420
Vehicles	169,651	-	-	169,651
	66,447,294	223,676	-	66,670,970
Less accumulated depreciation	(46,318,690)	(1,624,680)	-	(47,943,370)
<i>Total capital assets - governmental funds</i>	<u>\$ 69,794,570</u>	<u>1,299,561</u>	<u>-</u>	<u>71,094,131</u>
Enterprise funds:				
Hovercraft	\$ 10,342,359	568,136	-	10,910,495
Terminal	7,339,148	64,423	-	7,403,571
	17,681,507	632,559	-	18,314,066
Less accumulated depreciation	(2,663,405)	(634,431)	-	(3,297,836)
<i>Total capital assets - enterprise funds:</i>	<u>\$ 15,018,102</u>	<u>(1,872)</u>	<u>-</u>	<u>15,016,230</u>

Depreciation expense of \$1,624,680 was charged to the general fund, depreciation expense of \$634,431 was charged to the enterprise funds, and was allocated to the hovercraft and terminal in the amount of \$381,534 and \$252,897, respectively.

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress at June 30, 2013, represents infrastructure not yet placed in service.



**THE ALEUTIANS EAST BOROUGH**

King Cove, Alaska

*Notes to Financial Statements, continued***NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables are shown as "due to" and "due from" in each individual fund within the governmental fund financial statements. These balances represent short-term interfund borrowings at June 30, 2013, and were as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Major funds:		
General fund	\$ 8,496,787	-
Capital Improvements	-	2,081,476
Trust Fund	-	250,431
Debt Service	75,123	-
Bond Construction	-	1,070,072
Business-type activity - Hovercraft and terminal	-	5,830,225
<i>Total Major Funds</i>	<u>8,571,910</u>	<u>9,232,204</u>
Nonmajor funds:		
Maintenance Reserve	379,524	-
King Cove Access Project	280,770	-
<i>Total Nonmajor Funds</i>	<u>660,294</u>	<u>-</u>
	<u>\$ 9,232,204</u>	<u>9,232,204</u>

**NOTE 6 - LONG-TERM DEBT**

Following is a summary of general obligation bond transactions of the Borough for the year ended June 30, 2013:

Bonds payable at July 1, 2012	\$ 32,780,000
Principal payments	<u>(1,170,000)</u>
<b>Bonds payable at June 30, 2013</b>	<b><u>\$ 31,610,000</u></b>

# THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## Notes to Financial Statements, continued

### NOTE 6 - LONG-TERM DEBT, continued

General obligation bonds payable at June 30, 2013, are comprised of the following:

\$21,125,000 - 2003 Aleutians East Borough, Alaska school, marine, other transportation, due in variable installments ranging from \$60,125 to \$2,465,125 through December 1, 2028; interest rate not to exceed 7 percent	\$ 490,000
\$5,000,000 - 2006 Akutan Harbor due in variable installments ranging from \$112,393 to \$556,235 through February 1, 2026; interest rate is variable from 4.0 to 4.35 percent.	3,005,000
\$21,095,000 - 2007 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$53,550 to \$2,433,550 through June 30, 2029; interest rate is variable from 3.75 to 5.0 percent	20,240,000
\$5,000,000 - 2011 Akutan Airport and King Cove Access Project due in variable installments ranging from \$175,000 to \$1,560,000 through October 1, 2030; interest rate is variable from 2.0 to 5.4 percent	4,640,000
\$3,460,000 - 2011 Refunding of Aleutians East Borough bonds due in variable installments ranging from \$65,000 to \$905,000 through September 2021; interest rate is variable from 2.0 to 5.0 percent	<u>3,235,000</u>
	<u>\$ 31,610,000</u>

Annual requirements to amortize all Borough general obligation bonds and leases payable as of June 30<sup>th</sup> follow:

Year ending	Principal	Interest	Total
2014	\$ 1,102,182	1,422,006	2,524,187
2015	1,411,154	1,370,426	2,781,580
2016	1,220,525	1,305,465	2,525,990
2017	1,425,311	1,248,123	2,673,434
2018	1,565,532	1,180,834	2,746,366
2019-2023	9,412,568	4,763,013	14,175,581
2024-2028	12,062,728	2,390,999	14,453,728
2029-2033	<u>3,410,000</u>	<u>181,590</u>	<u>3,591,590</u>
	<u>\$ 31,610,000</u>	<u>13,862,455</u>	<u>45,472,455</u>



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Notes to Financial Statements, continued*

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**NOTE 7 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Excess of expenditures over appropriations in individual funds for the current year were:

	Budget	Actual Expenditures	Over Budget
General fund	\$ 4,078,481	3,903,868	174,613
Debt service	1,597,433	2,591,401	(993,968)
Capital improvements	1,196,611	1,212,538	(15,927)
Trust fund	35,000	36,238	(1,238)
	<u>\$ 2,829,044</u>	<u>3,840,177</u>	<u>(1,011,133)</u>

**NOTE 8 - DEFINED-BENEFIT PENSION PLANS**

All non-certified permanent employees working over 30 hours per week participate in the Alaska Public Employees Retirement System (PERS).

**Alaska Public Employees Retirement System (PERS)**

Plan Description: The plan is a joint-contributor agent, multiple-employer PERS plan created by State of Alaska statutes effective January 1, 1961. Any municipality or other political subdivision of the State may request to become an employer in this system. Benefit and contribution provisions are established by State law and may be amended only by State legislature.

Pension Benefits: The Aleutians East Borough participates in the Public Employees Retirement System (PERS), a retirement plan that provides pension, postemployment health care, death and disability benefits to eligible participants. The PERS is administered by the State of Alaska Division of Retirement and Benefits.

Employees hired prior to July 1, 2006 and employees hired after July 1, 2006 who have PERS enrollment from prior employment, participate in the PERS Tiers I-III, a defined benefit retirement system. Employees hired after July 1, 2006 who have no prior PERS participating employment participate in PERS Tier IV, a defined contribution plan with a component of defined benefit postemployment health care. Benefits and contribution provisions are established by State law and may be amended only by the State Legislature.

Each fiscal year the PERS issues publicly available financial reports that include financial statements and required supplementary information. These reports are available from: Department of Administration, Division of Retirement and Benefits, PO Box 110203, Juneau, AK 99811.



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Notes to Financial Statements, continued*

**NOTE 8 - DEFINED-BENEFIT PENSION PLANS, continued**

Conversion to Cost Sharing: In 2008 the Alaska Legislature passed Senate Bill (SB) 125 which converted the PERS from an agent-multiple employer plan to a cost-sharing plan with an effective date of July 1, 2008. Under the cost sharing arrangement the State of Alaska Division of Retirement and Benefits no longer tracks individual employer assets and liabilities. Rather, all plan costs and past service liabilities are shared among all participating employers. The cost sharing plan requires a uniform employer contribution rate of 22% of active member wages, subject to a wage floor. State legislation currently provides that the State of Alaska will contribute any amount over 22% such that the total contribution equals the Alaska Retirement Management Board adopted rate. This rate will be consistent with the actuarially determined rate. Any such additional contributions are recognized by each employer as an on-behalf payment.

In fiscal year 2008 the State of Alaska also passed SB 123 which requires the employer contribution be calculated on all PERS eligible wages, including wages attributable to the defined contribution plan.

As a result of the conversion to a cost-sharing plan, AEB will not be obligated to pay or to continue amortizing any prior recorded Net Pension/Obligation Post Employment Benefit (Net Pension/OPEB) obligation.

The PERS contribution rates for 2013 were determined as part of the June 30, 2013 actuarial valuations as follows:

Pers Rates - 2013	Contractual Rate	ARM Board Adoption Rate	GASB 45 Rate**
Pension	5.62%	15.45%	Unavailable
Postemployment Health Care	16.38%	17.38%	Unavailable
Total Contribution Rate	22.00%	32.83%	Unavailable

Pers Rates - 2012	Contractual Rate	ARM Board Adoption Rate	GASB 45 Rate**
Pension	5.71%	14.65%	Unavailable
Postemployment Health Care	16.29%	16.11%	Unavailable
Total Contribution Rate	22.00%	30.76%	Unavailable

\*\* this rate uses a 4.5% OPEB discount rate and disregards future Medicare Part D payments.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

# THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## Notes to Financial Statements, continued

### NOTE 8 - DEFINED-BENEFIT PENSION PLANS, continued

Projections of benefits are based on the substantive plan (the plan is understood by the employer and the plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between AEB and the plan members at that point. Actuarial calculations reflect a long term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial values of assets. The significant actuarial information and assumptions used in the most recent valuation plan follow:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry age actuarial cost Level percentage of pay for pension Level dollar for healthcare
Amortization Method	Level dollar, closed
Equivalent Single Amortization Period	20 years
Asset Valuation Method	8.0% compounded annually, net of expenses
Salary Scale	Productivity - 0.5% per year 9.60% for 1 year of employment 7.60% for 2 years of employment 6.61% for 3 years of employment 6.11% for 4 years of employment 5.61% for 5 years of employment age-based increased for 6+ years of employment
Payrol Growth	3.62% per year.
Inflation	3.12% annually.
Health Cost Trend	Medical: 5.9% for FY13 grades down to 5.1% thru FY100. Prescription Drugs: 5.9% for FY13 trending down to 5.1% thru FY100.

Projected benefits for financial reporting purposes do not incorporate any potential effect of legal or contractual funding limitations.

Annual Pension and Post employment Healthcare Cost: AEB is required to contribute 22% of covered payroll, subject to a wage floor. In addition, the State of Alaska contributes the difference between the rates established by the Alaska Retirement Management Board (ARMB) and the employer mandated rates. The state of Alaska contributed approximately 8.76% and 10.83% of covered payroll to the retirement plan in State FY2012 and State FY2013 respectively.



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Notes to Financial Statements, continued*

**NOTE 8 - DEFINED-BENEFIT PENSION PLANS, continued**

In accordance with the provisions of GASB Statement Number 24, AEB has recorded the State contribution in the amount of \$109,345 as a PERS on-behalf payment for the year ended June 30, 2013. However, because AEB is not statutorily obligated for these payments, this amount is excluded from pension and the Obligation Post Employee Benefit as described below.

Period	Annual Pension Cost	Annual OPEB Cost	Total Benefit Cost (TBC)	Contributions	% of TBC Contributed
7/1/12-6/30/13	\$ 302,541	-	302,541	302,541	100%

Employees first enrolling into PERS after July 1, 2006 participate in PERS Tier IV. PERS Tier IV is a defined contribution retirement plan that includes a component of defined benefit post-employment health care. The plan required both employer and employee contributions. Contribution rates are as follows:

Pers Tier IV Contribution Rates:	7/1/12 - 12/31/12	1/1/13 - 6/30/13
Employee Contribution	8.00%	8.00%
Employer Contribution		
Retirement	5.00%	5.00%
Health Reimbursement Arrangement*	16.38%	16.38%
Retiree Medical Plan	0.48%	0.48%
Death & Disability Benefit	0.14%	0.14%
Total Employer Contribution	22.00%	22.00%

\*Health Reimbursement Arrangement – AS 39.30.370 requires that the employer contribute “an amount equal to three percent to the employers average annual employee compensation.” For actual remittance this amount was calculated at a flat rate of \$68.39 per full time employee per pay period for full time employees and \$1.14 per hour worked for each part time employee.

Under the newly adopted cost sharing arrangement for the PERS defined benefit plan the state statute employer contribution rate of 22% includes Tier IV employees. In addition to the amounts above AEB contributed \$8,676 on Tier IV employee payroll for the year ended June 30, 2013. This contribution is comprised of \$7,916 for retirement and retiree medical and disability, and \$760 for Health Reimbursement Arrangement on-behalf of its employees.

All amounts paid on behalf of employees are applied to the obligation of the PERS defined benefit plan and is included in the contribution AEB recorded in the defined benefit cost-sharing plan. Employee contribution to the plan totaled \$52,512.

**NOTE 9 - DEFERRED COMPENSATION PLAN**

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.



## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

### Notes to Financial Statements, continued

#### NOTE 9 - DEFERRED COMPENSATION PLAN, continued

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are solely the property and rights of the Borough (without being restricted to provisions of benefits under the plan), subject only to claims of the Borough's general creditors. Participants' rights under the plan are equal to those of general creditors of the Borough in the amount equal to fair market value of the deferred account for each participant.

The Borough has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Borough believes it is unlikely it will use the assets to satisfy claims of general creditors in the future. Assets of the fund totaled \$551,438 at June 30, 2013, and are accounted for in the deferred compensation agency fund.

#### NOTE 10 - THE ALEUTIANS EAST BOROUGH SCHOOL DISTRICT CONTRIBUTION

Contributions:

Local school contribution	\$ 1,231,000
Special education supplement	60,000
FY13 revenue in excess of expenditures	<u>(248,667)</u>
<b>Total contributions, net</b>	<b><u>\$ 1,042,333</u></b>

#### NOTE 11 - COMMITMENTS AND CONTINGENCIES

**Grants**

The Aleutians East Borough participates in a number of federal- and State-assisted grant programs. These programs are subject to program compliance audits by grantors or their representatives. The amount, if any, of expenditures that may be disallowed by granting agencies cannot be determined at this time, although the Borough expects such amounts, if any, to be immaterial.

#### NOTE 12 - PRIOR PERIOD ADJUSTMENT

There was a prior period adjustment of \$39,279 to properly report the balance for compensated absences on the full accrual statement rather than the fund financial statements.

#### NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, AEB has evaluated events and transactions for potential recognition or disclosure through January 31, 2014, the date the financial statements were issued. Subsequent to year end, the Borough has entered into a contract with Maritime Helicopters, Inc. to operate services between Akun and Akutan. The Hovercraft will cease operations as of February 22, 2014, and will be stored in Akutan, temporarily.



**SUPPLEMENTAL INFORMATION**





THE ALEUTIANS EAST BOROUGH  
King Cove, Alaska

Exhibit E-1

*General Fund*

*Statement of Revenues, Expenses, and Changes  
in Fund Balance - Budget and Actual*

*Year Ended June 30, 2013*

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Federal government:				
Payment in lieu of taxes	\$ 559,000	512,818	526,694	13,876
USFWS lands	36,256	15,123	15,123	-
<i>Total federal government</i>	<u>595,256</u>	<u>527,941</u>	<u>541,817</u>	<u>13,876</u>
State of Alaska:				
Raw fish tax	1,664,919	2,033,097	2,033,097	-
State bond rebate	1,045,464	1,276,237	1,276,237	-
State fish landing tax	53,571	60,623	60,623	-
State extraterritorial fish tax	243,084	219,391	219,391	-
State revenue sharing	542,712	575,711	575,711	-
State PERS on-behalf funding	-	-	109,345	109,345
<i>Total State of Alaska</i>	<u>3,549,750</u>	<u>4,165,059</u>	<u>4,274,404</u>	<u>109,345</u>
Borough raw fish tax	3,200,779	4,121,050	4,121,050	-
SW Government LLC	-	60,000	-	(60,000)
Investment income	35,000	7,963	7,963	-
Other	7,000	165,939	176,170	10,231
<i>Total revenues</i>	<u>7,387,785</u>	<u>9,047,952</u>	<u>9,121,404</u>	<u>73,452</u>
Expenditures:				
Mayor's office:				
Salaries	68,985	71,468	71,468	-
Fringe benefits	27,810	26,211	31,460	(5,249)
Travel and per diem	36,000	37,863	37,863	-
Telephone	2,400	1,340	1,340	-
Supplies	1,000	662	662	-
Lobbying	111,600	120,798	120,798	-
<i>Total Mayor's office</i>	<u>247,795</u>	<u>258,342</u>	<u>263,591</u>	<u>(5,249)</u>
Assembly:				
Salaries	25,000	17,400	17,400	-
Fringe benefits	56,000	49,065	62,551	(13,486)
Travel and per diem	40,000	33,596	33,596	-

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## General Fund

Statement of Revenues, Expenses, and Changes  
in Fund Balance - Budget and Actual, continued

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Assembly, continued:				
Telephone	\$ 4,500	4,283	4,283	-
Supplies	500	471	471	-
Total assembly	126,000	104,815	118,301	7,699
Clerk and planning management:				
Salaries	81,160	82,100	82,100	-
Fringe benefits	33,524	32,914	43,203	(10,289)
Travel and per diem	12,500	5,169	5,169	-
Telephone	7,500	6,773	6,773	-
Postage	1,500	160	160	-
Supplies	9,000	4,338	4,338	-
Utilities	15,000	26,355	26,355	-
Dues and fees	5,000	3,924	3,924	-
Elections	25,000	5,480	5,480	-
Planning Commission	4,300	-	-	-
Total clerk and planning management	194,484	167,213	177,502	(10,289)
Administration:				
Salaries	166,116	173,939	173,939	-
Fringe benefits	64,234	110,462	110,429	33
Contract labor	25,000	21,000	21,000	-
Travel and per diem	15,000	43,861	43,861	-
Telephone	6,000	7,609	7,609	-
Postage	2,500	2,102	2,102	-
Supplies	18,120	15,884	15,884	-
Equipment	4,500	-	-	-
Rent	36,980	22,225	22,225	-
Dues and fees	1,500	2,390	2,390	-
Total administration	339,950	399,472	399,439	33
Finance:				
Salaries	116,802	122,838	122,838	-
Fringe benefits	51,161	46,946	60,521	(13,575)
Travel and per diem	4,000	4,155	4,155	-



THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit E-1, continued

General Fund

Statement of Revenues, Expenses, and Changes  
in Fund Balance - Budget and Actual, continued

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Finance, continued:				
Telephone	\$ 5,000	4,042	4,042	-
Postage	2,500	2,198	2,198	-
Supplies	10,500	13,743	13,743	-
Utilities	4,000	4,050	4,050	-
Audit	45,000	43,314	43,314	-
Total finance	238,963	241,286	254,861	(13,575)
Resource department:				
Salaries	70,000	69,668	69,668	-
Fringe benefits	30,040	32,442	39,210	(6,768)
Contract labor	75,000	75,000	75,000	-
Travel and per diem	35,000	29,585	29,585	-
Meetings	25,000	47,961	47,961	-
Telephone	3,000	2,102	2,102	-
Supplies	3,000	4,470	4,470	-
Rent	6,000	8,441	8,441	-
Contributions	15,000	15,000	15,000	-
SEMD Sampling	62,000	89,000	89,000	-
Public information officer	171,645	152,945	163,404	(10,459)
Total resource department	495,685	526,614	543,841	(17,227)
Public works:				
Salaries	72,997	84,924	84,924	-
Fringe benefits	29,602	37,687	45,892	(8,205)
Travel and per diem	12,000	13,702	13,702	-
Telephone	1,500	1,155	1,155	-
Supplies	6,000	3,180	3,180	-
Equipment	1,500	-	-	-
Utilities	2,500	2,503	2,503	-
Total public works	126,099	143,151	151,356	(8,205)
Development director:				
Salaries	70,000	74,187	74,187	-
Fringe benefits	27,256	29,604	37,567	(7,963)

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## General Fund

Statement of Revenues, Expenses, and Changes  
in Fund Balance - Budget and Actual, continued

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures, continued:				
Development director, continued:				
Travel and per diem	\$ 10,000	2,293	2,293	-
Telephone	4,000	971	971	-
Postage	250	-	-	-
Supplies	4,500	1,183	1,183	-
Rent	7,000	7,927	7,927	-
<i>Total special assistant</i>	<u>123,006</u>	<u>116,165</u>	<u>124,128</u>	<u>(7,963)</u>
Other:				
Local school contribution	1,500,000	1,291,000	1,042,333	248,667
Student scholarship	20,000	16,838	16,838	-
Student travel	5,000	5,000	5,000	-
Utilities	13,000	33,721	33,721	-
Equipment	18,200	14,156	14,156	-
Legal	150,000	224,786	224,786	-
Insurance	180,000	135,795	135,795	-
Bank fees	2,000	477	477	-
Contribution to Eastern Aleutians Tribes	150,000	150,000	150,000	-
Revenue sharing - Nelson Lagoon	32,000	32,000	32,000	-
Aleutia Crab	58,522	48,750	48,750	-
King Cove Access Project	23,800	13,100	11,192	1,908
Donations	23,500	23,450	23,450	-
Web service	16,000	24,266	24,266	-
Miscellaneous expense	6,000	108,084	108,085	(1)
<i>Total other</i>	<u>2,198,022</u>	<u>2,121,423</u>	<u>1,870,849</u>	<u>250,574</u>
<i>Total expenditures</i>	<u>4,090,004</u>	<u>4,078,481</u>	<u>3,903,868</u>	<u>195,798</u>
Excess of revenues over expenditures	<u>3,297,781</u>	<u>4,969,471</u>	<u>5,217,536</u>	<u>269,250</u>
Other financing uses - Operating transfers:				
Capital improvements fund	-	-	(184,730)	184,730
Debt service fund	(1,597,433)	(1,597,433)	(2,591,401)	993,968
<i>Net other financing uses</i>	<u>(1,597,433)</u>	<u>(1,597,433)</u>	<u>(2,776,131)</u>	<u>1,178,698</u>
Excess of revenues over expenditures and other financing uses	<u>\$ 1,700,348</u>	<u>3,372,038</u>	<u>2,441,405</u>	<u>1,447,948</u>
Beginning fund balance			13,527,556	
Prior period adjustment			39,279	
<b>Ending fund balance</b>			<u>\$ 16,008,240</u>	

# THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit F-1

## Capital Improvements

### Statement of Revenues, Expenses, and Changes in Fund Balance (Deficit)

Year Ended June 30, 2013

---

Revenues:	
Federal revenue	\$ 249,255
State of Alaska	2,388
Investment income	1,935
<i>Total revenues</i>	<u>253,578</u>
Expenditures:	
Salaries and benefits	9,288
Contract labor	2,388
Supplies	2,503
Contributions to other governments	21,911
Capital projects	913,326
Other	263,122
<i>Total capital outlays</i>	<u>1,212,538</u>
Excess of expenditures under revenues	<u>(958,960)</u>
Other financing sources:	
Operating transfer	<u>184,730</u>
<i>Total other financing sources</i>	<u>184,730</u>
Excess of revenues under expenditures and other financing uses	<u>(774,230)</u>
Beginning fund balance	<u>227,622</u>
Ending fund deficit	<u>\$ (546,608)</u>



THE ALEUTIANS EAST BOROUGH  
King Cove, Alaska

Exhibit G-1

*Trust Fund*

*Statement of Revenues, Expenses,  
and Changes in Fund Balance*

*Year Ended June 30, 2013*

---

Revenues:	
Investment income	\$ 3,412,100
Total revenues	<u>3,412,100</u>
Expenditures - Management fee	<u>36,238</u>
Total expenditures	<u>36,238</u>
Excess of revenues over expenditures	3,375,862
Beginning fund balance	<u>29,021,492</u>
Ending fund balance	<u>\$ 32,397,354</u>

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Debt Service**Statement of Revenues, Expenses,  
and Changes in Fund Balance**Year Ended June 30, 2013*

---

Revenues - Investment income	\$ -
Expenditures:	
Principle	1,170,000
Interest	<u>1,421,401</u>
<i>Total expenditures</i>	<u>2,591,401</u>
Excess of expenditures over revenues	(2,591,401)
Other financing sources	
Operating transfer from general fund	<u>2,591,401</u>
<i>Total other financing sources</i>	<u>2,591,401</u>
Excess of revenues and other financing source over expenditures	-
Beginning fund balance	<u>75,123</u>
<b>Ending fund balance</b>	<u><u>\$ 75,123</u></u>

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

*Bond Construction**Statement of Revenues, Expenses,  
and Changes in Fund Balance**Year Ended June 30, 2013*

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Revenues:	
Investment income	\$ 32,217
Other	<u>96,484</u>
Total revenues	<u>128,701</u>
 Expenditures - capital outlays	 <u>2,077,580</u>
 Excess of revenues under expenditures	 (1,948,879)
 Beginning fund balance	 <u>8,436,988</u>
 Ending fund balance	 <u><u>\$ 6,488,109</u></u>



THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

Exhibit J-1

Nonmajor Funds

Combining Balance Sheet

June 30, 2013

	Maintenance Reserve	King Cove Access Project	Total
<b>Assets</b>			
Receivables, school	\$ 34,846	-	34,846
Due from other funds	379,524	280,770	660,294
	<u>\$ 414,370</u>	<u>280,770</u>	<u>695,140</u>
 <b>Liabilities and Fund Balance</b>			
Liabilities:			
Accounts payable	\$ 3,494	-	3,494
Total liabilities	<u>3,494</u>	<u>-</u>	<u>3,494</u>
Fund balances:			
Committed - Construction	-	280,770	280,770
Assigned - Designated for major maintenance	410,876	-	410,876
Total fund balances	<u>410,876</u>	<u>280,770</u>	<u>691,646</u>
	<u>\$ 414,370</u>	<u>280,770</u>	<u>695,140</u>

## THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## Nonmajor Funds

Statement of Revenues, Expenditures  
and Changes in Fund Balance

Year Ended June 30, 2013

	Maintenance Reserve	King Cove Access Project	Total
Revenues:			
Other	\$ 154,336	-	154,336
<i>Total revenues</i>	<u>154,336</u>	<u>-</u>	<u>154,336</u>
Expenditures - Capital outlay:			
Salaries and benefits	27,814	-	27,814
Contract labor	57,561	-	57,561
Travel and per diem	1,082	-	1,082
Supplies	3,334	-	3,334
Capital projects	116,219	-	116,219
<i>Total expenditures - Capital outlay</i>	<u>206,010</u>	<u>-</u>	<u>206,010</u>
Excess of revenues under expenditures	(51,674)	-	(51,674)
Beginning fund balances	<u>462,550</u>	<u>280,770</u>	<u>743,320</u>
<b>Ending fund balances</b>	<u>\$ 410,876</u>	<u>280,770</u>	<u>691,646</u>

FEDERAL COMPLIANCE REPORT





**THE ALEUTIANS EAST BOROUGH**

King Cove, Alaska

*Schedule of Expenditures of Federal Financial Awards*

*Year Ended June 30, 2013*

Federal Grant Title	Award Identification	CFDA Number	Total Grant Award	Eligible Expenditures
U.S. Department of Interior:				
Payment in lieu of taxes*	Unknown	15.226	\$ 526,694	526,694
Cold Bay Boat Ramp Rehab	10-CIAP-003	15.426	90,000	10,897
Create A Resource Development Land Use Permitting	10-CIAP-012	15.668	255,050	28,505
Nelson Lagoon Erosion	10-CIAP-013	15.668	238,800	90
USFWS Lands	Unknown	15.XXX	15,123	15,123
<i>Total Department of the Interior</i>			<u>1,125,667</u>	<u>581,309</u>
Denali Commission:				
False Pass Harbor Utility Project	01400-00	90.100	996,461	209,763
<b>Total federal financial assistance</b>			<b><u>\$ 2,122,128</u></b>	<b><u>791,072</u></b>

\*Indicates a major program for compliance audit purposes.

This schedule was prepared on the accrual basis of accounting.



**NEWHOUSE & VOGLER**  
*Certified Public Accountants*

237 E. Fireweed Lane, Suite 200  
Anchorage, Alaska 99503  
(907) 258-7555  
(907) 258-7582 Fax

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Honorable Mayor and Borough Assembly  
The Aleutians East Borough  
King Cove, Alaska

Ladies and Gentlemen:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Aleutians East Borough as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Aleutians East Borough's basic financial statements,<sup>1</sup> and have issued our report thereon dated January 31, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Aleutians East Borough's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aleutians East Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of Aleutians East Borough's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Honorable Mayor and Borough Assembly  
The Aleutians East Borough

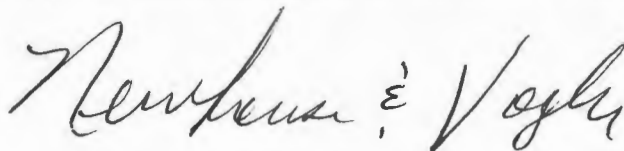
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Aleutians East Borough's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anchorage, Alaska  
January 31, 2014





**NEWHOUSE & VOGLER**  
*Certified Public Accountants*

237 E. Fireweed Lane, Suite 200  
Anchorage, Alaska 99503  
(907) 258-7555  
(907) 258-7582 Fax

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance as Required by OMB Circular A-133

Independent Auditor's Report

Honorable Mayor and Borough Assembly  
The Aleutians East Borough  
Anchorage, Alaska

Ladies and Gentlemen:

**Report on Compliance for Each Major Federal Program**

We have audited Aleutians East Borough's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Aleutians East Borough's major federal programs for the year ended June 30, 2013. The Aleutians East Borough's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Aleutians East Borough's major federal programs based on our audit of the type of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Aleutians East Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination on the Aleutians East Borough's compliance.

**Opinion on each Major Federal Program**

In our opinion, the Aleutians East Borough complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.



Honorable Mayor and Borough Assembly  
The Aleutians East Borough

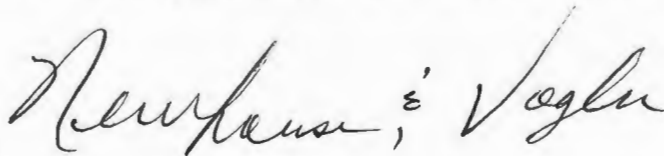
### **Report on Internal Control over Compliance**

Management of The Aleutians East Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered The Aleutians East Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Aleutians East Borough's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska  
January 31, 2014



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Summary of Auditor's Results and  
Schedule of Findings and Questioned Costs*

Year Ended June 30, 2013

---

**FINANCIAL STATEMENTS**

Type of auditor report issued:			Unmodified
Material weakness in internal control over financial reporting identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Significant deficiencies not considered a material weakness identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Noncompliance related to the financial statements identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	

**FEDERAL AWARDS**

Type of auditor report issued on compliance over major programs:			Unmodified
Material weakness in internal control over major programs identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Significant deficiencies not considered a material weakness identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Audit findings that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	

**IDENTIFICATION OF MAJOR PROGRAMS**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster of Programs</u>
15.226	DOI- PILT

Dollar threshold used to distinguish between Type A and Type B programs:		\$ 300,000
Qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

The Aleutians East Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

**FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

The Aleutians East Borough did not have any findings or questioned costs related to federal awards for the year ended June 30, 2013.

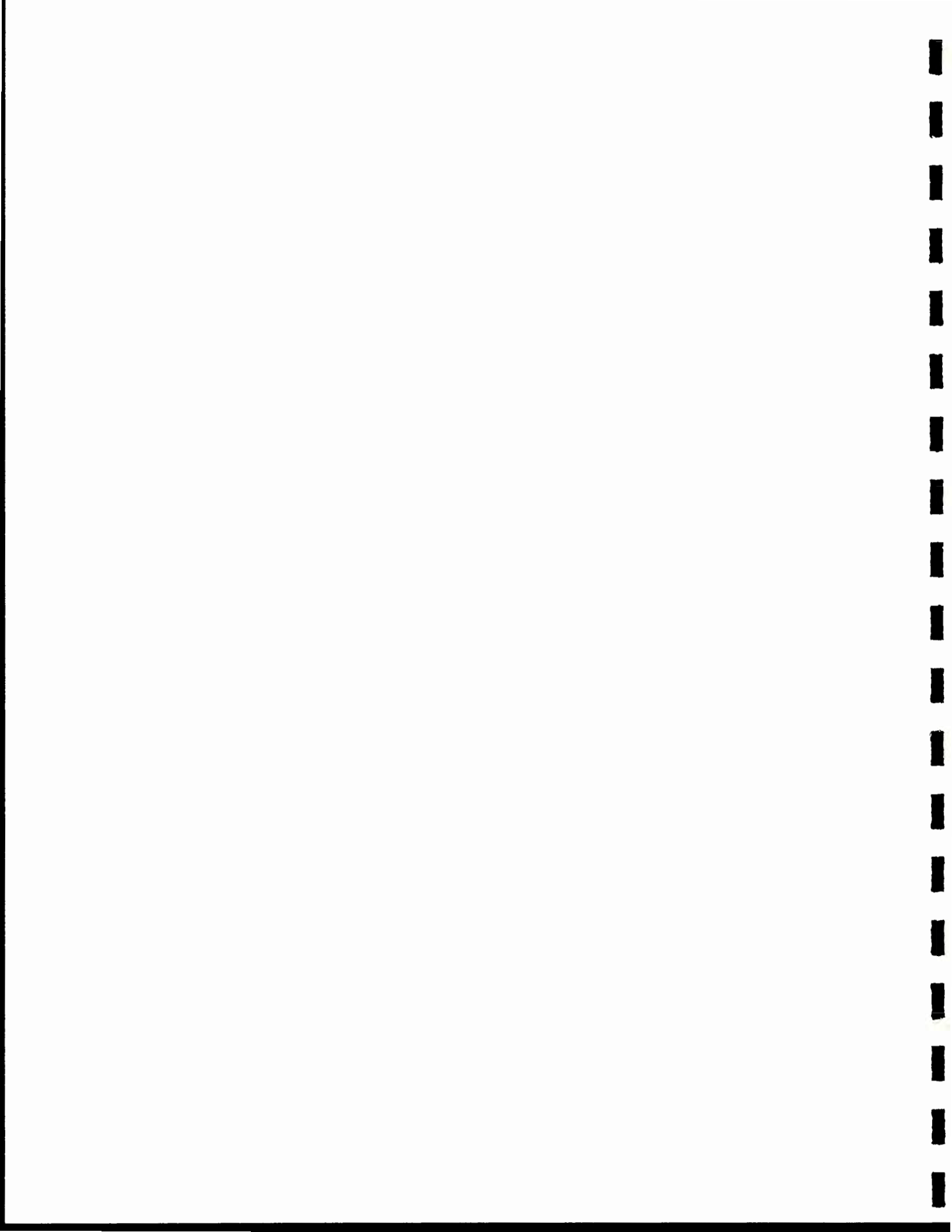
**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Summary of Prior Audit Findings*

*Year Ended June 30, 2013*

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There are no prior findings or questioned costs.





STATE COMPLIANCE REPORTS



**THE ALEUTIANS EAST BOROUGH**

King Cove, Alaska

*Schedule of State Financial Assistance*

*Year Ended June 30, 2013*

Grant Title	Award Identification	Period	Total Grant Award	State Share of Expenditures
Department of Community and Regional Affairs:				
Fish landing tax supplement*	Unknown	7/01/12 - 6/30/13	\$ 219,391	219,391
Fish landing tax	Unknown	7/01/12 - 6/30/13	60,623	60,623
<i>Total Department of Community and Regional Affairs</i>			<u>280,014</u>	<u>280,014</u>
Department of Commerce, Community and Economic Development:				
Revenue sharing*	Unknown	7/1/12 - 6/30/13	575,711	575,711
Nelson Lagoon Hazard Impact	810758	7/1/12 - 6/30/13	49,812	2,388
<i>Total Department of Commerce, Community and Economic Development</i>			<u>625,523</u>	<u>578,099</u>
Department of Revenue - Raw fish tax*	Unknown	7/01/12 - 6/30/13	<u>2,033,097</u>	<u>2,033,097</u>
Department of Education - Debt retirement*	Unknown	7/1/12 - 6/30/13	<u>1,276,237</u>	<u>1,276,237</u>
Department of Administration: Pers on-behalf*	Unknown	7/01/12 - 6/30/13	<u>109,345</u>	<u>109,345</u>
<b>Total State financial assistance</b>			<b><u>\$ 4,324,216</u></b>	<b><u>4,276,792</u></b>

\*Indicates a major program.

This schedule was prepared on the accrual basis of accounting.





**NEWHOUSE & VOGLER**  
*Certified Public Accountants*

237 E. Fireweed Lane, Suite 200  
Anchorage, Alaska 99503  
(907) 258-7555  
(907) 258-7582 Fax

Independent Auditor's Report on Compliance for Each Major State Program and Report on Internal Control over Compliance Required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Honorable Mayor and Borough Assembly  
The Aleutians East Borough  
King Cove, Alaska

Ladies and Gentlemen:

**Report on Compliance for Each Major State Program**

We have audited Aleutians East Borough's compliance with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of Aleutians East Borough's major state programs for the year ended June 30, 2013. Aleutians East Borough's major state programs are identified in the accompanying schedule of state financial assistance.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Aleutians East Borough's major state programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Aleutians East Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However our audit does not provide a legal determination of Aleutians East Borough's compliance.

**Opinion on Each Major State Program**

In our opinion, Aleutians East Borough complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2013.

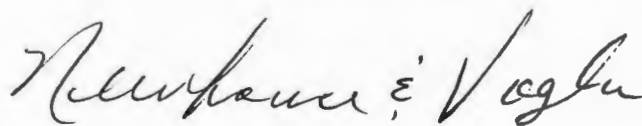
### **Report on Internal Control over Compliance**

Management of Aleutians East Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Aleutians East Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Aleutians East Borough's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Accordingly, this report is not suitable for any other purpose.



Anchorage, Alaska  
January 31, 2014



# THE ALEUTIANS EAST BOROUGH

King Cove, Alaska

## *Summary of Auditor's Results and Schedule of Findings and Questioned Costs*

*Year Ended June 30, 2013*

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### FINANCIAL STATEMENTS

Type of auditor report issued:		Unmodified
Internal Control over financial reporting:		
Material weakness (es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency (ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Noncompliance material to financial statements?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

### STATE FINANCIAL ASSISTANCE

Type of auditor report issued on compliance for major programs:		Unmodified
Internal control over major programs:		
Material weakness (es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiency (ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Dollar threshold used to distinguish a state major program: \$ 75,000

### FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The Aleutians East Borough did not have any findings that relate to the financial statements that are required to be reported in accordance with GAGAS.

### FINDINGS AND QUESTIONED COSTS FOR STATE AWARDS

The Aleutians East Borough did not have any findings or questioned costs related to state awards for the year ended June 30, 2013.



**THE ALEUTIANS EAST BOROUGH**  
King Cove, Alaska

*Summary of Prior Audit Findings*

*Year Ended June 30, 2013*

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There were no prior audit findings.

